



## CRS Report for Congress

### NATO and Energy Security

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#### Summary

Energy security is of increasing importance to the United States and its European allies, as some energy producers are using oil and gas for political leverage. Although most European allies believe that a market solution exists to ensure security of energy supplies, NATO has begun to discuss the issue as an allied concern. This report<sup>1</sup> will be updated periodically. See also CRS Report RL33636, *The European Union's Energy Security Challenges*, by Paul Belkin.

#### Energy as a Security Issue

The growth of China and India as large consumers of energy, coupled with an inability to develop reliable and affordable alternatives to oil and natural gas, has led to the belief that the power to ensure access to international energy resources has shifted from energy consumers to energy producers.<sup>2</sup> In December 2005-January 2006, when Russia dramatically raised the price of natural gas that it was supplying to Ukraine, many saw an effort to squeeze Ukraine politically and economically to secure Kiev within Russia's orbit. Moscow's effort also underscored the shift towards the ability of energy producers to exert pressure on countries dependent upon them for supplies.<sup>3</sup>

The United States and its European allies have begun to discuss the appropriate institutions and policies for ensuring energy security. The Bush Administration introduced a discussion of energy security at NATO in February 2006, with the support of key allies. At the same time, EU governments view energy security in a broad manner, and most believe that political and economic measures are the first steps to ensure access

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<sup>1</sup> This study was originally a memorandum for Senator Richard Lugar and is printed as a CRS report with his permission.

<sup>2</sup> Paolo Scaroni, "Europeans Must Face the Threat to Energy Supplies," *Financial Times*, January 18, 2006, p. 15. Scaroni is head of ENI, the large Italian energy firm.

<sup>3</sup> See CRS Report RS22378, *Russia's Cutoff of Natural Gas to Ukraine: Context and Implications*, by Bernard Gelb, Jim Nichol, and Steven Woehrel.

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE <b>15 AUG 2007</b>		2. REPORT TYPE		3. DATES COVERED <b>00-00-2007 to 00-00-2007</b>	
4. TITLE AND SUBTITLE <b>NATO and Energy Security</b>				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) <b>Congressional Research, The Library of Congress, 101 Independence Ave, SE, Washington, DC, 20540-7500</b>				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT <b>Approved for public release; distribution unlimited</b>					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT <b>Same as Report (SAR)</b>	18. NUMBER OF PAGES <b>6</b>	19a. NAME OF RESPONSIBLE PERSON
a. REPORT <b>unclassified</b>	b. ABSTRACT <b>unclassified</b>	c. THIS PAGE <b>unclassified</b>			

to energy resources. Most EU members are also members of NATO, and the two organizations may handle energy security in a complementary manner.

## European Views on Energy Security

Most European countries are heavily reliant upon imported energy. Today, EU countries as a whole import 50% of their energy needs, a figure expected to rise to 70% by 2030. Russia is a key supplier of oil and natural gas. Germany imports 32% of its energy from Russia. Poland imports two-thirds of its natural gas needs from Russia, and 97% of its oil. As a whole, EU countries import 25% of their energy needs from Russia. In one estimate, by 2030 EU countries will import 40% of their gas needs from Russia, and 45% of their oil from the Middle East.<sup>4</sup> In addition, oil in particular is found largely in unstable areas of the world such as the Middle East, a factor in U.S. and European concerns over energy security.

European governments view energy security primarily in an economic and political context. The EU floated a proposal meant to build interdependence between EU members and Russia to secure reliable energy supplies from Russia. The EU has discussed with Russia a structured arrangement in which Russia would sell energy not only to its principal customers in central and eastern Europe, but to more distant customers in western Europe. In return, the EU is asking Moscow to allow European companies to develop Russian energy reserves.<sup>5</sup> But Russia has rejected key elements of this proposal. Moscow for the most part has not allowed foreign ownership of its pipelines, and has squeezed out some foreign companies that have been developing its energy reserves. At the same time, it has secured access to some European markets, for example, through agreements to sell gas to Hungary and France.<sup>6</sup>

Russia has taken steps to build its leverage in European energy markets. In May 2007, Russia, Turkmenistan, and Kazakhstan agreed to build a new gas pipeline around the Caspian Sea. The new pipeline would send Central Asian natural gas to the Russian energy grid; Russia has repriced such gas, from another pipeline, twofold before selling it to European customers. The United States and some European governments have sought instead a trans-Caspian Sea pipeline that would bypass the Russian grid, and provide natural gas more cheaply to Europe, thereby diminishing as well greater potential Russian leverage tied to the supply of energy.<sup>7</sup> Russia has also discussed the linking its natural gas supply grid to that of Algeria, which also supplies gas to Europe. EU energy

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<sup>4</sup> The United States also relies heavily on imported energy. In 1960, the United States imported 18% of its petroleum; in 2003, that figure reached 58%. "Schroeder and Putin Cementing Relationship," *International Herald Tribune*, September 8, 2005, p. 3; "Gas Crisis a Warning for Europe," *International Herald Tribune*, February 16, 2006, p. 3.

<sup>5</sup> "Russia Insists It Is Reliable Gas Supplier," *Financial Times*, March 14, 2006, p. 5.

<sup>6</sup> "Russia Defiant on Energy," *International Herald Tribune*, December 13, 2006, p. 1; and "Gazprom Gains Access to Hungary Market," *Financial Times*, July 14, 2006, p. 4. An exception to this policy is an agreement between Gazprom and Eni, an Italian company, to co-develop the large Shtokman gas field in eastern Russia.

<sup>7</sup> "Russia Will Get Central Asian Pipeline," *New York Times*, May 13, 2007, p. 12.

commissioner Andris Piebalgs has charged that the two governments may be planning to develop an energy cartel that would further weaken competitive pricing.<sup>8</sup>

To prevent impediments to competition and to improve energy security, the EU Commission is urging new infrastructure, including terminals for receiving liquified natural gas; the construction of new pipelines from the Caspian region and North Africa; and single European energy grids for both continental electricity and natural gas markets that would challenge the grip of national energy firms on their national markets.<sup>9</sup> The Commission has also recommended that companies that produce raw energy not be allowed to own distribution networks, a step intended to encourage competition. Some EU governments, such as France, have large public entities that own both the sources of energy and the distribution network, and oppose this proposal. Should the EU eventually adopt the Commission's proposal, Russian efforts to buy parts of the European energy grid might be set back.

Few observers believe that Moscow's pricing agreement for its gas exports to Ukraine indicates that the market process is working successfully. Some EU officials say that the agreement lacks transparency, and may mask involvement by criminal enterprises. They contend that Russia needs European (and other) firms' good will and continued investment in its decaying energy infrastructure to maintain existing production and develop its oil and gas reserves to sell energy products abroad.<sup>10</sup>

Some European and U.S. officials believe that Germany may become too reliant on Russian energy supplies and move away from its EU partners and the United States. East European states in particular, once in Moscow's sphere, believe that they could find themselves unable to ensure reliable and affordable energy supplies from Gazprom, the powerful state-controlled Russian energy company. They point to the former Schroeder government's deal with Gazprom to involve German companies in the development of a Russian-German gas pipeline under the Baltic Sea as a special arrangement that appears to promise a supply to Germany that other states might not enjoy.<sup>11</sup>

Some governments believe that Russia has little interest in market forces in the energy sector. In this view, Russia seeks high energy prices to maximize profits. These governments note that the Russian government has a prevailing control over Gazprom, hardly a model of capitalist entrepreneurship, and that Gazprom was behaving like a monopoly in ratcheting up the price of natural gas to Ukraine. Knowing that Ukraine had no reliable alternatives for gas supply, Gazprom raised prices threefold and threatened a sixfold rise. Gazprom also controls the transit of non-Russian energy supplies to Ukraine, and threatened rapid rises in transit fees as well. Russia has temporarily followed similar policies towards Georgia, Lithuania, and Belarus. Political motives seem apparent in such

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<sup>8</sup> "EU Official Says Russia is Seeking Gas Cartel," *International Herald Tribune*, January 27, 2007, p. 1.

<sup>9</sup> "EU To Issue Warning on Foreign Energy Use," *International Herald Tribune*, March 7, 2006, p. 1.

<sup>10</sup> Interviews with European officials, 2006-2007; see also CRS Report RL33212, *Russian Oil and Gas Challenges*, by Robert Pirog.

<sup>11</sup> Interviews with U.S. and east European officials, 2006-2007.

policies. In 2003, Putin himself said that Gazprom is a “powerful political and economic lever of influence over the rest of the world.”<sup>12</sup>

## NATO and Energy Security

Some U.S. officials believe that NATO could play a role in building international political solidarity in the event of a deliberate disruption of energy flows. In this view, NATO might coordinate policies among member states and with non-member partner governments to share resources and to bring an end to an energy disruption. NATO might also provide security for infrastructure in energy-producing states facing unrest.

Iran has threatened to use its energy reserves to attain political objectives. In response to possible sanctions due to its refusal to comply with requirements by the International Atomic Energy Agency on its nuclear program, Iran has threatened to cut off or limit its energy supplies to buyers. Beyond deliberate policies affecting energy security, there are many countries in Central Asia and the Middle East that are unstable, have a need for new energy infrastructure investment, and have insecure transportation systems due to political unrest. Some of these countries are in NATO’s Partnership for Peace program, or desire a closer association with NATO.

NATO member states increasingly believe that the alliance must be a global player with global partners. This trend is evident in Afghanistan, for example, where Australia, New Zealand, and Japan are expending resources to bring stability through NATO’s International Security Assistance Force, even though the three countries are not NATO members. NATO’s role in energy security could be complementary to the EU’s effort to strengthen market forces and interdependence in the international energy sector. U.S. officials agree with their EU counterparts that market forces can lead to greater energy security. Diversification of supply, for example, through building more pipelines that are secure, is one course of action. Joint investment efforts to build such pipelines in and with energy producers such as Kazakhstan and Azerbaijan could be an important step in this direction. Both countries are members of NATO’s Partnership for Peace program, and are seeking closer relations with the United States and its allies.

Development of more liquified natural gas (LNG) transport and reception facilities from distant suppliers, such as Nigeria, into Europe could be another course of action. Coupled with the development of new oil and gas pipelines could be an offer from NATO (and/or EU) members to provide security for energy infrastructure in periods of unrest or conflict in supplier and transit countries.<sup>13</sup>

**The Military Option.** NATO governments (although not NATO as a whole) have already been involved in military efforts to secure energy resources. The first Gulf War, while not a NATO operation, involved key member states such as the United States, France, Britain, and Italy that sought not only to liberate Kuwait but also to ensure that Iraq did not control Kuwaiti oil and threaten Saudi Arabia and other Gulf producers.

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<sup>12</sup> *Jamestown Eurasian Daily Monitor*, January 19, 2006; Putin cited in “EU’s Barroso Demands Natural Gas Supply Assurances from Russia,” *Bloomberg News*, March 16, 2006.

<sup>13</sup> Discussions at the Organization for Economic Cooperation and Development, February 2006.



NATO governments also took part in a military operation in the 1980s explicitly designed to secure the supply of oil. *Operation Earnest Will* was an effort, primarily by NATO states, to protect tanker traffic in the Gulf during the Iran-Iraq War (1980-1988). Beginning in 1984, Iran first, and then Iraq, attacked neutral oil tankers to cut off the other's means of financial support. Iran attacked Kuwaiti and Saudi tankers in those two countries' own waters to ensure that all Gulf states understood that none was secure. The Soviet Union, followed shortly thereafter by the United States, made offers to the Kuwaitis, who lost the most tankers, to reflag their vessels under the USSR and the U.S. flags, an offer that was accepted. After Iraqi aircraft attacked the USS Stark in 1987, killing 37 sailors, the Reagan Administration formed a coalition of like-minded states, above all from NATO, to protect tanker traffic in the Gulf. Britain, France, and the Netherlands were important participants in *Operation Earnest Will*. The allies captured Iranian vessels mining shipping lanes in the Gulf, and engaged in firefights with Iranian troops using oil platforms to fire on ships.

In February 2006, NATO governments discussed a range of potential actions in the event of future disruption of oil supplies caused by military action. Some member states reportedly raised the possibility of protecting tanker traffic and oil platforms in periods of conflict, and using satellites to monitor developments in areas where energy resources come under threat.<sup>14</sup>

## Congressional Action

There was increasing congressional interest in energy security during the 109<sup>th</sup> Congress. The Senate passed S.Res. 456, which urged the Administration to raise the issue of energy security in the North Atlantic Council, and to report the results of such a meeting to Congress. Senator Lugar gave a speech during the NATO Riga summit in November 2006 in which he urged that energy security be raised to an Article V, or mutual security, issue. Several House and Senate committees held hearings on the issue of energy security, with attention to NATO's possible role. Similar hearings and legislation are possible in the 110<sup>th</sup> Congress.

## Conclusion

NATO is attempting to become a global security organization, still concentrating on protection of the interests of the United States and its Canadian and European partners, but engaging non-member states as global partners. NATO's role in energy security remains uncertain, however, as some individual members may prefer a greater role for the EU.

A political role in energy security for NATO seems most likely in the near future. Under NATO's Istanbul Cooperation Initiative of 2004, the allies have begun discussions with Bahrain, Qatar, Kuwait, and the United Arab Emirates to build practical cooperation in the security field, including the fight against terrorism.<sup>15</sup> Some Middle Eastern

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<sup>14</sup> Discussions with officials from several NATO governments, February 2006.

<sup>15</sup> Istanbul Cooperation Initiative, NATO, Brussels, January 2006.

governments are concerned about terrorist attacks on their oil facilities, but it is not publicly known whether NATO has discussed this issue with the four governments.

Partnership for Peace countries, such as Kazakhstan and Azerbaijan, that are important energy producers often seek ways to associate themselves more closely with NATO, in part to diminish Russian influence on their soil, in part to develop reliable partners in an unstable region. It is possible that NATO will seek ways to provide security for the energy infrastructure of such countries. At the same time, the EU may encourage its member states to invest more heavily in that infrastructure.

There is division in the EU over management of the Union's growing dependence on Russian oil and gas. Several states, led by Poland, wish to engage NATO more fully in ensuring energy security in this relationship. While in the early stages of discussion, Poland is exploring a role for NATO and the United States, perhaps only diplomatically, in which U.S. leverage on Moscow could be an element for encouraging responsible Russian behavior and deflecting any Russian attempt to divide the Europeans.

A NATO role in energy security could prove to be premature. Most EU governments clearly prefer that market forces secure access to energy. A well-structured commercial partnership with Russia might be one mark of such a policy. Another would be the effort of the EU3 (Germany, France, and Britain) and the United States to curtail Iran's nuclear program. The EU3 desire completion of that effort in the UN before there is any discussion of a military organization like NATO assuming responsibility for a broader policy of energy security.

Some EU governments also believe that discussion of energy security at NATO sends the wrong signal to other governments, which might assume that the allies are contemplating military action to ensure the flow of oil and gas. Some of these governments propose instead that there first be a high-level "seminar" that includes the United States, representatives of key EU countries, Russia, and such countries as Uzbekistan, Kazakhstan, and Azerbaijan. There, some participants would reiterate the importance of market forces and the interdependence of producers and suppliers, and the need to protect and maintain energy infrastructure.

In addition, some NATO partner governments in Central Asia and the Middle East might be reluctant to accept allied assistance in securing the resource that is central to their survival. The belief is widespread in the Middle East that the United States invaded Iraq in part to secure access to its oil. There might be popular opposition to any NATO effort to secure energy infrastructure in some of these countries. Moreover, the United States has been unable to provide full security to pipelines in Iraq, and NATO might have similar difficulties in partnership countries. Russia is also a factor. Turkmenistan and Kazakhstan depend upon Russia as a transit country for their pipeline shipments to the west, and could be subject to Moscow's pressure to spurn NATO proposals of assistance.